

State of Alaska FY2010 Governor's Operating Budget

Department of Revenue Treasury Division Component Budget Summary

Component: Treasury Division

Contribution to Department's Mission

The mission of the Treasury Division is to manage the state's funds consistent with prudent investment guidelines and Governmental Accounting Standards Board (GASB) rules.

Core Services

- Manage the investments of state funds, including: General Fund, International Airports Revenue Fund, International Airports Construction Funds, Constitutional Budget Reserve Fund, Student Loan Bond Funds, Alaska Children's Trust, Exxon Valdez Oil Spill Trust Fund, Power Cost Equalization Endowment Fund, Public School Trust Fund, Retiree Health Insurance Fund, University of Alaska Trust Fund, Permanent Fund Dividend Holding Account, Alaska Mental Health Trust Reserve, and state pension funds.
- Provide cash management and investment advice and services to all state agencies.
- Provide capital financing advice and services to state agencies upon request.
- Provide staff to the Alaska Retirement Management Board, the State Bond Committee and the Alaska Municipal Bond Bank Authority Committee and the Alaska Municipal Bond Bank Authority.

End Result	Strategies to Achieve End Result
A: Maximize the value of the funds under the stewardship of the Treasury Division. <u>Target #1:</u> For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns. <u>Status #1:</u> During FY2008, returns for 2 of the 9 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.	A1: Portfolio Investment Officer staff is continually upgraded in experience and education. <u>Target #1:</u> Increase average longevity of the investment officers to 5 years. <u>Status #1:</u> The average longevity of the Treasury investment officers during FY2008 was 4.2 years, a reduction from the prior year due to staff turnover. <u>Target #2:</u> At least 4 investment staff will have their Chartered Financial Analyst (CFA) designation. <u>Status #2:</u> In FY2008, five members of the Treasury investment staff have their Chartered Financial Analyst designation. This exceeds the Treasury Division's target of four.
End Result	Strategies to Achieve End Result
B: A low cost of State indebtedness. <u>Target #1:</u> Yields at which the state issues debt will not exceed 30 basis points of the applicable benchmark. <u>Status #1:</u> There were no State of Alaska bond issues in FY2008.	B1: Documents updating statewide fiscal and economic events sent to Moody's, other credit rating agencies, overall market for public finance. <u>Target #1:</u> Formal visit, bond issue update, or updated document template sent or presented to ratings agencies at least four times per year. <u>Status #1:</u> During FY2008, rating agencies received updates from the State Debt Manager as well as a formal presentation that resulted in Alaska's rating being upgraded to a Standard & Poor's rating of AA+.

End Result	Strategies to Achieve End Result
<p>C: Cash management services essential to the operation of state government are timely and accurate.</p> <p><u>Target #1:</u> 100% of all daily cash management services essential to the operation of state government are processed on time with no avoidable errors caused by internal staff or systems.</p> <p><u>Status #1:</u> During FY2008, all daily cash management services were processed accurately although the rates of timeliness varied from 91% to 100%, depending on the service category.</p>	<p>C1: Provide sufficient training and cross training of staff in the cash management services essential to the operation of state government.</p> <p><u>Target #1:</u> 100% of staff receive sufficient training so that all cash management services essential to the operation of state government are performed timely and accurately.</p> <p><u>Status #1:</u> 74% of Cash Management staff received cross-training during FY2008.</p>
End Result	Strategies to Achieve End Result
<p>D: Unclaimed property owners in Alaska will be united with their property.</p> <p><u>Target #1:</u> Pay 15% more claims each year.</p> <p><u>Status #1:</u> We increased payment of claims by 11% in FY2008 over what was paid in FY2007. Unclaimed Property was transferred from the Tax Division to the Treasury Division in FY2009.</p>	<p>D1: Place primary focus on locating owners of most recently reported properties.</p> <p><u>Target #1:</u> Unclaimed Property will initiate search of at least 50 owners per month.</p> <p><u>Status #1:</u> We initiated 300 total searches in FY2008 which fell below the target of 50 per month. We discovered that other means of reaching out to unclaimed property owners were more effective and intentionally reduced our searches to spend time on these other more effective methods. This goal will be updated for FY2009 to reflect those new methods.</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Define roles of potential new asset class managers and perform adequate due diligence. • Financially support meeting professional designation targets and ongoing education requirements of the division's professional staff. • Have programmer work with external custodian to automate download of accounting data. • Have accounting staff develop macro-driven spreadsheets that can take auto-downloaded data and compile the financial reports with no intervention. • Work with Bloomberg and custodian to automate reconciliation process. 	<ul style="list-style-type: none"> • Poll banks to receive daily data. • Inform state agencies of cash control needs and techniques. • Define state fund intercept authority and moral obligation for credit markets and credit rating agencies. • Staff State Bond Committee. • Work with all public debt issuers in Alaska to defend state credit rating.

FY2010 Resources Allocated to Achieve Results

FY2010 Component Budget: \$7,816,900

Personnel:

Full time 39

Part time 0

Total 39

Performance

A: Result - Maximize the value of the funds under the stewardship of the Treasury Division.

Target #1: For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.

Status #1: During FY2008, returns for 2 of the 9 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.

One-year Return Data for Funds Managed by the Treasury Division

Fiscal Year	Fund	Actual Return	Target Return
FY 2008	Gen Fund/Other Non-segregated F	5.85%	6.47%
FY 2008	AK Children's Trust Fund	(8.83%)	(8.34%)
FY 2008	Public School Trust Fund	(2.75%)	(1.99%)
FY 2008	Int'l Airports Revenue Fund	6.92%	7.91%
FY 2008	Const Budg Resv Fund-Main Acc	6.60%	7.54%
FY 2008	Const Budg Resv Fund-Sub Acc	(10.67%)	(4.74%)
FY 2008	Retirement Hlth Ins Fund-Longter	(5.83%)	(6.10%)
FY 2008	Retirement Hlth Ins Fund-Maj Med	2.71%	3.16%
FY 2008	Power Cost Equalization Fund	(4.79%)	(5.50%)

Methodology: FY2008 one-year return data is for the period 7/1/2007 through 6/30/2008.

Analysis of results and challenges: A combination of investments that is expected to produce the highest investment return for a given amount of risk is known as "point on the efficient frontier." Each fiduciary for a fund reviews points on the efficient frontier and selects the combination of investments consistent with their appetite for risk and returns of the fund. This selection is known as the target return.

Target returns assume the earnings of passively managed indexes invested in the same proportions as the assets at the corresponding point on the efficient frontier. A fund will exceed the target rate of return if the amount of money invested matches the asset allocation or are overweighted to higher earning assets at that point on the efficient frontier and the investment managers earn more than their benchmark index. Conversely, returns will be less if the manager underperforms their benchmark or if assets were not allocated to overweight higher performing asset classes.

In FY2008, Treasury securities were the higher performing asset class within the funds. Since the composition of assets within the funds managed included less Treasury securities than the benchmark targets, the funds managed had less earnings than the benchmark target.

A1: Strategy - Portfolio Investment Officer staff is continually upgraded in experience and education.

Target #1: Increase average longevity of the investment officers to 5 years.

Status #1: The average longevity of the Treasury investment officers during FY2008 was 4.2 years, a reduction from the prior year due to staff turnover.

Average Longevity of Investment Staff

Fiscal Year	Number of Years
FY 2008	4.2 years
FY 2007	4.6 years
FY 2006	3.8 years
FY 2005	2.8 years
FY 2004	2.6 years

Analysis of results and challenges: A seasoned investment staff contributes to improved investment performance. Over the past four years, investment performance relative to other public pension funds has markedly improved.

Target #2: At least 4 investment staff will have their Chartered Financial Analyst (CFA) designation.

Status #2: In FY2008, five members of the Treasury investment staff have their Chartered Financial Analyst designation. This exceeds the Treasury Division's target of four.

Number of Staff Holding CFA Designation

Fiscal Year	Number of Staff
FY 2008	5
FY 2007	5
FY 2006	4
FY 2005	4
FY 2004	3

Analysis of results and challenges: The Chartered Financial Analyst (CFA) designation takes a minimum of three years to obtain. Investment returns have steadily improved, as has the average longevity of the investment staff and their individual progress towards obtaining CFA designations.

B: Result - A low cost of State indebtedness.

Target #1: Yields at which the state issues debt will not exceed 30 basis points of the applicable benchmark.

Status #1: There were no State of Alaska bond issues in FY2008.

Percent of Bonds Issued at Less Than 30 bp Over Benchmark

Fiscal Year	Percent of Bonds
FY 2008	None Issued
FY 2007	100%
FY 2006	100%
FY 2005	100%
FY 2004	100%
FY 2003	100%

B1: Strategy - Documents updating statewide fiscal and economic events sent to Moody's, other credit rating agencies, overall market for public finance.

Target #1: Formal visit, bond issue update, or updated document template sent or presented to ratings agencies at least four times per year.

Status #1: During FY2008, rating agencies received updates from the State Debt Manager as well as a formal presentation that resulted in Alaska's rating being upgraded to a Standard & Poor's rating of AA+.

Updates Provided to Ratings Agencies

Fiscal Year	# of Updates
FY 2008	4
FY 2007	4
FY 2006	5

C: Result - Cash management services essential to the operation of state government are timely and accurate.

Target #1: 100% of all daily cash management services essential to the operation of state government are processed on time with no avoidable errors caused by internal staff or systems.

Status #1: During FY2008, all daily cash management services were processed accurately although the rates of timeliness varied from 91% to 100%, depending on the service category.

Essential Cash Management Services

Fiscal Year	Service	Timely	Accurate
FY 2008	Determine cash requirements	91%	100%
FY 2008	Cash flow forecasting	94%	100%
FY 2008	Electronic payment initiation	100%	100%
FY 2008	Cash reconciliation	100%	100%
FY 2008	Recording bank activity	97%	100%
FY 2008	Drawdown fed funds	100%	100%
FY 2008	Interfund transfers	95%	100%
FY 2008	Record GF balance	91%	100%
FY 2008	Bank deposits	100%	100%
FY 2008	International payments	93%	100%

Analysis of results and challenges: Over the past few years, Cash Management has experienced an increase in workload volume and complexity due to implementing new systems and processes, increases in fraud attempts, and increased demands from state agencies. As a result, there is less time to work on the most essential tasks, which in turn has a detrimental effect on Cash Management's ability to perform work accurately. In addition, Cash Management has not been able to complete cross-training of all section staff to the degree necessary to ensure all mission-critical duties that must be performed each business day are executed without fail.

C1: Strategy - Provide sufficient training and cross training of staff in the cash management services essential to the operation of state government.

Target #1: 100% of staff receive sufficient training so that all cash management services essential to the operation of state government are performed timely and accurately.

Status #1: 74% of Cash Management staff received cross-training during FY2008.

Cross Training Completed

Fiscal Year	Percentage
FY 2008	74%
FY 2007	77%
FY 2006	76%

Analysis of results and challenges: Over the past few years, Cash Management has experienced an increase in workload volume and complexity due to implementing new systems and processes, increases in fraud attempts, and increased demands from state agencies. As a result, Cash Management has not been able to complete cross-training of all section staff. This remains a goal for FY2009.

D: Result - Unclaimed property owners in Alaska will be united with their property.

Target #1: Pay 15% more claims each year.

Status #1: We increased payment of claims by 11% in FY2008 over what was paid in FY2007. Unclaimed Property was transferred from the Tax Division to the Treasury Division in FY2009.

Property Claims Paid per Year

Fiscal Year	# of Claims Paid	% Change from Prior Year
FY 2008	5,761	11%
FY 2007	5,111	10%
FY 2006	4,649	14%
FY 2005	4,061	128%
FY 2004	1,780	-34%
FY 2003	2,706	19%

Analysis of results and challenges: Claims filed can fluctuate significantly due to factors beyond our control. Claims initiated through contact with property owners will not always result in a claim being paid in the same fiscal year. In addition, we do not have control over a claimant's actions to return their signed claim form and include documentation required for payment. Although we fell short of our target in FY2008, we returned close to \$3 million in property to Alaskans during the year. In FY2009, Unclaimed Property was transferred to Treasury Division and goals will be reflected in Treasury's performance measures for that year.

D1: Strategy - Place primary focus on locating owners of most recently reported properties.

Target #1: Unclaimed Property will initiate search of at least 50 owners per month.

Status #1: We initiated 300 total searches in FY2008 which fell below the target of 50 per month. We discovered that other means of reaching out to unclaimed property owners were more effective and intentionally reduced our searches to spend time on these other more effective methods. This goal will be updated for FY2009 to reflect those new methods.

Owner Searches Performed by UCP

Fiscal Year	# of Searches
FY 2008	300
FY 2007	53
FY 2006	300
FY 2005	600
FY 2004	300

Analysis of results and challenges: The Unclaimed Property (UCP) staff conducts searches for property owners by selecting recently reported properties from the division's database and using online tools to locate the owners. The target is to search for 50 owners each month, however when there are fluctuations in staffing and/or workload the UCP places a priority on responding to claims requests from property owners which involves verifying claims and processing payments. In FY2008, UCP responded to more claims than in FY2007, but the target for number of owner searches was not met. UCP intentionally reduced the number of monthly searches and focused staff time on the more effective method of conducting outreach to educate potential property owners of the existence of the program's website, with a searchable database and instructions for filing a claim. In addition, Alaska is part of a 40-state consortium which 'advertises' unclaimed property on a single website called 'Missing Money'. Missing Money provides a single search method for individuals to look for unclaimed property in all 40 states. In the future, this performance measure will be revised accordingly.

Key Component Challenges

- Primary key issues for portfolio management continue to be managing investment risk in the current low interest rate environment.
- Cash Management will begin the process of replacing the Treasury workstation software system, an essential component of the division's daily production processes. In FY2008, the system processed approximately 234,000 transactions totaling \$126 billion.
- Replacement contracts will be issued for Automated Clearinghouse (ACH) origination and Credit Card Acceptance Services. Implementing changes in banking and financial services is complicated by the need to shift multiple state agencies with diverse needs to new systems, processes and service providers.
- Key debt issues include maintenance of the State of Alaska's credit ratings with Standard and Poor's, Fitch Ratings, and Moody's Investors Service. Regular communication of state current events to the rating analysts, as well as ensuring analysts' concerns are relayed to the state's leadership, are key to meeting this challenge.
- Due to failure of the nation's fourth and fifth largest investment banks as well as the government takeover of mortgage giants FNMA and FHLMC (Fannie Mae and Freddie Mac), a lack of confidence has developed in the nation's financial system. The price of many financial instruments has plummeted, creating a challenge to maintain liquidity without selling assets at distressed prices.
- Over the past year, the assets in the General Fund and the Constitutional Budget Reserve Fund have nearly doubled. The increase in assets under management along with the complexity of managing multiple investment mandates will create new investment challenges.

Significant Changes in Results to be Delivered in FY2010

- Asset Accounting's continued efforts to automate the financial statement preparation process will result in financial statements for all funds and trusts published on-line within ten business days after the end of each month.
- Cash Management will continue to work with state agencies to automate disbursement and receipt transactions to achieve the end result of providing timely and accurate cash management services essential to the operation of state government.

Major Component Accomplishments in 2008

- Treasury suspended securities lending arrangements with the custodial bank and as a result avoided potential for substantial losses due to failures of large counterparts (e.g. Lehman and AIG).
- Cash Management continued to implement positive pay for all state warrants and state checks. Positive pay is the nation's leading internal control process for eliminating check fraud, and protects the state from fraud losses.
- Cash Management implemented replacement contracts for statewide depository services.

Statutory and Regulatory Authority

AS 14.40.400	University of Alaska, Community Colleges, and Alaska Aerospace Development Corporation - Fund for Money from Sale or Lease of Land Granted By Act of Congress
AS 18.26	Alaska Medical Facility Authority
AS 18.56.110	Alaska Housing Finance Corporation - Bonds and Notes
AS 37.10	Public Finance – Public Funds
AS 37.15	Public Finance – Bonding
AS 37.10.220	Duties of the Alaska Retirement Management Board
AS 43.05.150	Administration of Revenue Laws - Collection of Money
AS 43.05.170	Payment of Warrants
AS 43.05.180	Accounting for State Funds
AS 44.25.020	Department of Revenue – Duties of Department

Contact Information

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**Treasury Division
Component Financial Summary**

All dollars shown in thousands

	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	4,156.1	4,853.9	5,083.6
72000 Travel	42.5	43.3	38.8
73000 Services	1,517.3	5,598.6	2,641.9
74000 Commodities	67.4	37.7	37.5
75000 Capital Outlay	0.0	15.1	15.1
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	5,783.3	10,548.6	7,816.9
Funding Sources:			
1001 Constitutional Budget Reserve Fund	466.9	4,325.7	1,673.0
1004 General Fund Receipts	1,330.7	1,744.5	2,147.9
1005 General Fund/Program Receipts	0.0	151.3	0.0
1007 Inter-Agency Receipts	3,290.5	3,285.2	3,273.5
1017 Benefits Systems Receipts	0.0	0.0	81.7
1027 International Airport Revenue Fund	82.4	83.3	31.9
1046 Student Revolving Loan Fund	43.4	97.1	54.9
1066 Public School Fund	148.8	235.6	104.4
1098 Children's Trust Earnings	40.7	41.2	15.2
1108 Statutory Designated Program Receipts	0.0	250.0	250.0
1142 Retiree Health Ins Fund/Major Medical	101.8	0.0	0.0
1143 Retiree Health Ins Fund/Long-Term Care Fund	79.3	99.7	0.0
1169 PCE Endowment Fund	198.8	211.0	160.4
1192 Mine Reclamation Trust Fund	0.0	24.0	24.0
Funding Totals	5,783.3	10,548.6	7,816.9

Estimated Revenue Collections

Description	Master Revenue Account	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Interagency Receipts	51015	3,290.5	3,285.2	3,273.5
General Fund Program Receipts	51060	0.0	151.3	0.0

Estimated Revenue Collections				
Description	Master Revenue Account	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
Statutory Designated Program Receipts	51063	0.0	250.0	250.0
Mine Reclamation Trust Fund	51211	0.0	24.0	24.0
Restricted Total		3,290.5	3,710.5	3,547.5
Total Estimated Revenues		3,290.5	3,710.5	3,547.5

**Summary of Component Budget Changes
From FY2009 Management Plan to FY2010 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2009 Management Plan	1,895.8	0.0	8,652.8	10,548.6
Adjustments which will continue current level of service:				
-Establish Separate Component for Unclaimed Property	-355.2	0.0	0.0	-355.2
-FY2010 Wage and Health Insurance Increases for Bargaining Units with Existing Agreements	35.3	0.0	88.9	124.2
Proposed budget decreases:				
-Reverse FY09 Constitutional Budget Reserve Fund Management Fees	0.0	0.0	-4,325.7	-4,325.7
Proposed budget increases:				
-Implement Cost Allocation Plan for Federal Compliance	572.0	0.0	-420.0	152.0
-Constitutional Budget Reserve Fund Investment Management	0.0	0.0	1,673.0	1,673.0
FY2010 Governor	2,147.9	0.0	5,669.0	7,816.9

**Treasury Division
Personal Services Information**

Authorized Positions			Personal Services Costs	
	FY2009 Management Plan	FY2010 Governor		
Full-time	43	39	Annual Salaries	3,448,313
Part-time	0	0	COLA	59,976
Nonpermanent	0	0	Premium Pay	9,250
			Annual Benefits	1,572,281
			<i>Less 0.12% Vacancy Factor</i>	(6,220)
			Lump Sum Premium Pay	0
Totals	43	39	Total Personal Services	5,083,600

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	0	0	2	0	2
Accountant IV	0	0	5	0	5
Accounting Tech II	0	0	2	0	2
Accounting Tech III	0	0	2	0	2
Administrative Assistant I	0	0	1	0	1
Administrative Assistant II	0	0	1	0	1
Administrative Officer II	0	0	1	0	1
Assistant Investment Officer	0	0	4	0	4
Data Processing Mgr I	0	0	1	0	1
Dep Commissioner	0	0	1	0	1
Micro/Network Spec I	0	0	1	0	1
Operations Res Anl I	0	0	1	0	1
Secretary	0	0	1	0	1
State Comptroller	0	0	1	0	1
State Investment Officer I	0	0	1	0	1
State Investment Officer II	0	0	9	0	9
State Investment Officer III	0	0	4	0	4
State Investment Officer IV	0	0	1	0	1
Totals	0	0	39	0	39